

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 AGR-05 IGA-02 SP-02 AID-05 EB-07 NSC-05

CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 IO-10 L-03

H-02 CIAE-00 COME-00 FRB-03 INR-07 NSAEC-00 USIA-06

XMB-02 OPIC-03 LAB-04 SIL-01 DODE-00 PA-01 PRS-01

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TO SECSTATE WASHDC 1904

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TAGS: EAID, ECON, EFIN, CE

SUBJECT: SRI LANKA: 100,000 TONS PLS 480 WHEAT FLOUR

REF: A) COLOMBO 3730 B) COLOMBO 3570

1. SUMMARY: REFTELS OUTLINE SRI LANKA'S FOOD AND FINANCIAL NEEDS AND UNITED STATES BILATERAL AND MULTILATERAL INTERESTS SUPPORTING OUR STRONG RECOMMENDATION FOR FY76 TITLE I ALLOCATION AT SAME LEVEL AS FY 1975 I.E. 100,000 TONS WHEAT FLOUR (140,000 TONS WHEAT EQUIVALENT). SINCE THEN SENIOR GSL FOOD AND FINANCIAL OFFICIALS HAVE EXPRESSED TO US GSL'S EXPECTATION OF USG SUPPORT IN FORM FOOD AID AT FY 1975 LEVEL AND CONCERN OVER DELAY IN NOTIFICATION. GSL EXPECTATIONS ARE NOW REINFORCED BY RECENTLY ANNOUNCED USG FOOD AID BUDGET INCREASE AND CONTINUED NEWS OF GOOD AMERICAN CROP YEAR, BOTH PUBLICIZED HERE. FOR SRI LANKA AND GSL, 1976 WILL BE EXTREMELY IMPORTANT YEAR BECAUSE : (A) GOVERNMENT IS TAKING POSITIVE STEPS, IS PLANNING MORE ACTIONS TO MOVE ECONOMY FORWARD BY INCREASING INVESTMENT, PRODUCTION AND

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EMPLOYMENT AND (B) PM AND GSL HAVE SIGNIFICANT THIRD WORLD ROLE AS HOSTS OF AUGUST 1976 NON-

ALIGNED SUMMIT CONFERENCE. PL 480 AUTHORIZATION SOONEST WILL ENABLE GSL TO BETTER PLAN COMMERCIAL, AND OTHER CONCESSIONAL PROCUREMENT AND ARRIVALS THROUGH 1976. WE SUGGEST CONSIDERATION OF TITLE I SHIPMENTS TO ARRIVE DURING MARCH-JUNE PERIOD AND TO CONTINUE DURING US TRANSITIONAL FIFTH QUARTER (JULY -SEPTEMBER 1976) WHICH COINCIDES WITH NON-ALIGNED SUMMIT. WE THEREFORE REPEAT OUR STRONG RECOMMENDATION FOR 100,000 TONS FLOUR AND URGE EARLIEST POSSIBLE AUTHORIZATION TO NOTIFY GSL, IF POSSIBLE BY JANUARY 15. END SUMMARY.

2. IN REFTELS WE STRONGLY RECOMMENDED FY 76 TITLE I ALLOCATION OF 100,000 TONS WHEAT FLOUR (140,000 TONS WHEAT EQUIVALENT). SINCE THOSE MESSAGES SENT, WE HAVE FURTHER DISCUSSED IN DETAIL SRI LANKA'S NEEDS WITH GSL OFFICIALS RESPONSIBLE FOR FOREIGN EXCHANGE AND FOOD RESOURCES MANAGEMENT. THEY HAVE REPEATEDLY EXPRESSED GSL'S EXPECTATION THAT USG WOULD PROVIDE FOOD AID AT SAME LEVEL AS FY 75 AND DEEPENING CONCERN OVER CONTINUED DELAY IN AUTHORIZATION NOTIFICATION. RECENT USDA ANNOUNCEMENT OF INCREASED FY 76 BUDGET FOR AMERICAN FOD AID AND CONTINUED REPORTS OF EXCELLENT AMERICAN CROP YEAR HAVE BEEN WELL PUBLICIZED HERE. THESE WILL FURTHER REINFORCE GSL, AND CEYLONSE PUBLIC EXPECTATION THAT UNITED STATES WILL BE AS FORTHCOMING NEXT YEAR AS IN 1975.

3. WITH FOREGOING IN MIND, WE STRESS THAT 1976 WILL BE EXTREMELY IMPORTANT YEAR FOR SRI LANKA'S NATIONAL POLITICAL AND ECONOMIC DEVELOPMENT AND FOR ITS THIRD WORLD ROLE. IN EARLY SEPT, PRIME MINISTER ACTED STRONGLY IN EXPELLING TROTskyITE MARXIST MINISTERS FROM UNITED FRONT COALITION. WHETHER MRS BANDARANAIKE AND HER GOVERNMENT CAN SUCCEED POLITICALLY IN MOVING NATION TOWARD MORE PRAGMATIC, MORE BALANCED, AND MORE PRODUCTIVE LONG-TERM POLICY WILL DEPEND LARGELY ON GSL'S NEAR-TERM PERFORMANCE IN REVERSING CHRONIC ECONOMIC DETERIORATION. SLIDE HAS ACCELERATED LAST LIMITED OFFICIAL USE
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TWENTY-FOUR MONTHS DUE SRI LANKA'S EXTREME MSA CIRCUMSTANCES. SINCE SEPT GSL HAS TAKEN SPECIFIC ACTIONS AND MADE PROPOSALS TO GET NATIONAL ECONOMY MOVING ON BASIS OF INVESTMENT, PRODUCTION AND EMPLOYMENT STIMULATED BY ECONOMIC INCENTIVES. IN SUMMARY, THESE ACTIONS AND PROPOSALS INCLUDE FOLLOWING:

A. ACTION: FREED NATIONAL PADDY MARKET OF ALL GOVERNMENT CONTROLS, ESSENTIALLY RETURNING RICE FARMERS TO MARKET ECONOMY.

B. ACTION: SHIFTED OIL EXPLORATION

EFFORT FROM TOTAL DEPENDENCE ON SOVIET CONTRACTUAL SERVICES TO ENGAGING AMERICAN TECHNICAL ADVICE WITH POSSIBILITY OF ACCEPTING WESTERN EXPLORATION ON VENTURE BASIS.

C. ACTION: MOVED CIVIL AVIATION PORTFOLIO TO

TOURISM MINISTRY,
CHANGED AIR CEYLON MANAGEMENT, AND NOW ACTIVELY SEEKING INCREASED AIR SERVICE TO SUPPORT TOURISM GROWTH.

D. ACTION: VIGOROUSLY FOUGHT INFLATION BY

EXTENSIVE REDUCTION IN PRICES ON WIDE RANGE CONSUMER GOODS (ALTHOUGH THIS HAS CAUSED SOME DISTRESS IN PRIVATE SECTOR).

E. PROPOSAL: IN CY/FY76 BUDGET,

PACKAGE OF TAXATION AND OTHER INCENTIVES TO STIMULATE DOMESTIC PRIVATE SECOTOR AND GENERATE SAVINGS FOR CAPITAL FORMATION. (NOV 21 IMF SUPPLEMENTARY ECONOMIC REPORT SAYS, "MAJOR THRUST OF REVENUE CHANGES HAS BEEN TO INCREASED INCENTIVES IN PRIVATE SECTOR.")

F. PROPOSAL: IN BUDGET,

CANCELLED OR POSTPONED INDEFINITELY NATIONALIZATION FOREIGN BANKS AND INVITED EXISTING AND NEW FOREIGN BANKS TO PARTICIPATE IN FINANCING NATIONAL DEVELOPMENT.

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G. PROPOSAL: IN BUDGET, PROPOS'D NATIONAL

POLICY OF ACTIVELY ENCOURAGING DIRECT FOREIGN INVESTMENT TO BE SUPPORTED BY INVESTMENT GUARANTEE/INCENTIVE LAW. WE NOW UNDERSTAND GSL PLANS TO HAVE LAW ENACTED BY MID-JANUARY. GSL HAS INVITED DOMESTIC PRIVATE SECTOR TO SUBMIT INVESTMENT PROPOSALS INCLUDING FOREIGN PRIVATE CAPITAL PARTICIPATION.

4. CONCERNING SRI LANKA'S THIRD WORLD ROLE AND HOSTING OF NON-ALIGNED SUMMIT, WE CONTINUE TO BELIEVE US SHOULD SUPPORT STRONGLY PRIME MINISTER'S AND GSL'S GENERALLY MODERATE AND BALANCED APPROACH TO THIRD WORLD ISSUES. ALTHOUGH MUCH ELSE WILL HAPPEN IN THIRD WORLD RELATIONS DURING 1976, WE SUBMIT THAT RESULTS OF NON-ALIGNED SUMMIT WILL BE SIGNIFICANT IN SETTING

TONE FOR 1976 UNGA AND OTHER NEGOTIATING FORUMS
INVOLVING THIRD WORLD DURING MONTHS OR YEARS AFTER
AUGUST 1976.

5. IN RECENT YEARS WE HAVE TRIED, NOT WITH GREAT
SUCCESS, TO ENCOURAGE GSL TO PLAN AHEAD IN MATCHING
COMMERCIAL AND CONCESSIONAL PROCUREMENT TO FORESEEABLE NEEDS IN
ORDER TO PREVENT HAVING PIPELINE AND STORAGE
ALTERNATELY OVERLOADED AND SLACK. IN 1975, THIS ADVICE
WAS NEGATED BY OUR OWN LATE NOTIFICATION (FEBRUARY)
AND HEAVY MID-YEAR DELIVERIES. THIS ALMOST CERTAINLY
CONTRIBUTED TO GSL PURCHASING AT LEAST 50,000 TONS FLOUR
BEYOND THEIR REAL NEEDS AND RESULTED IN SERIOUS MID-
1975 STORAGE SHORTAGE WHICH GSL SUCCESSFULLY DEALT WITH.
WE THEREFORE RECOMMEND THAT 100,000 TONS FLOUR BEGIN SHIPMENT
NO LATER THAN MARCH 1
WITH TARGET OF AT LEAST 50,000 TONS TO ARRIVE COLOMBO BY
JULY 1. BALANCE SHOULD ARRIVE BETWEEN JULY 1 AND SEPT 30.
THIS SHOULD BE POSSIBLE TO PLAN GIVEN USG TRANSITIONAL FIFTH
QUARTER. FURTHERMORE, FIFTH QUARTER ARRIVALS WOULD COINCIDE
WITH NON-ALIGNED SUMMIT CONFERENCE IN AUGUST.

6. DEVELOPMENTS IN RECENT WEEKS AND THE ADDITIONAL CONSIDERATIONS
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OUTLINED ABOVE REINFORCE OUR PREVIOUS STRONG RECOMMENDATION
OF A PL 480 TITLE I AUTHORIZATION FOR 100,000 TONS WHEAT
FLUR (140,000 TONS WHEAT EQUIVALENT). FURTHERMORE, WE
REQUEST AUTHORIZAION TOO SO NOTIFY GSL AS SOON
AS POSSIBLE,
PREFERABLY BY JANUARY 15.
VAN HOLLEN

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Disposition Authority: woolfhd
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